MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BIS3124 – SEMINAR IN INVESTMENT

(All sections / Groups)

7 March 2016
9:00 a.m. – 11:00 a.m.

(2Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **4** pages. There are a total of **4** questions.
2. Answer **ALL** questions.
3. Marks are shown at the end of each question.

Answer all questions in the answer booklet provided.

QUESTION 1 (25 marks)

(a) Given the extracted article from Journal of Advances in Management Research, read the information carefully and answer the following questions.

Socially responsible stocks: a boon for investors in India

1. Introduction

This section provides a brief insight into socially responsible investing (SRI), an area of great concern in today's times. Though, SRI has its existence since nineteenth century, formalization of this concept has undergone an extensive evolution. Still after its inception, the SRI market is not as wide as the conventional investing market, especially in India. Thus, reinforcement is crucial in this area to make investors realize its financial and non-financial benefits. This section also lays down the objectives of the study.

SRI is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the rigorous framework of financial analysis. It can also be defined as a process of identifying and investing in a company that meets certain standards of corporate social responsibility (CSR) and is increasingly practiced internationally. A socially responsible investor invests his money in stocks of socially responsible companies and penalizes the stocks of other companies by not investing in them. At the macro level, if all the investors become socially responsible then the companies which are not socially responsible will cease to exist due to no demand for their stocks.

The concept of SRI is not new but it has gained momentum in the last few years in the wake of growing concern for CSR. There are many reasons for wide recognition of the concept of CSR such as global financial crisis, global warming, environmental degradation, major corporate frauds, failure on the part of major businesses to address the social concerns and increase in awareness of the society. This has paved the way for growing importance of environmental, social and governance (ESG) issues in investment decision making and hence SRI. In the year 2006, SRI moved to centre stage with the advent of United Nations Principles for Responsible Investment (UNPRI, 2006), i.e. a set of six principles on ESG for investment domain. UNPRI believes that signing of these principles by any organization/institutional investor is a demonstration of its commitment to these issues in general by the management and assists investors in considering SRI-related issues while making financial decisions.

Developed in western economies since 1980s, SRI is still in the nascent stages of development in India, one of the emerging markets [1] as per FTSE classification. The reasons range from lack of awareness amongst investors to lack of publicly available ESG information on companies for investors to make financial decision on.

The main objective of this paper is to empirically examine the performance of socially responsible stocks portfolios vis-à-vis general stocks portfolios in Indian stock market especially during and after the period surrounding the recent financial crisis.

(Source: Tripathi, V. and Bhandari, V. (2015). Socially responsible stocks: a boon for investors in India. Journal of Advances in Management Research, Vol 12, No 2, pp. 209-225.)

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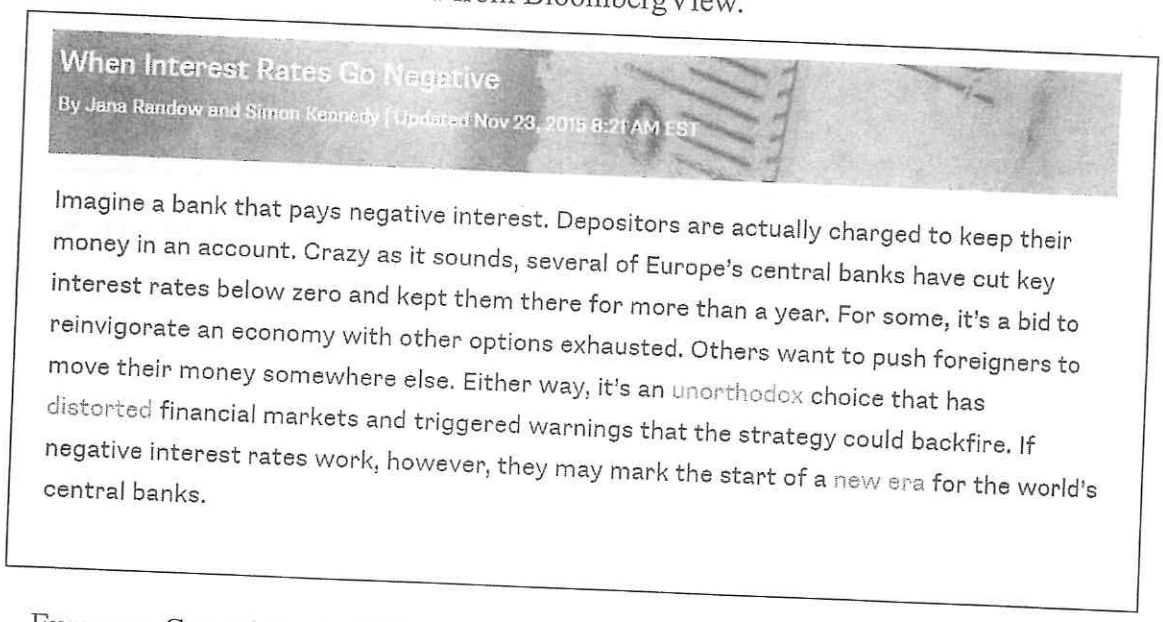
(i) Outline the research problems that motivate the study on socially responsible investing.
(6 marks)

(ii) Discuss the research question that the researchers intend to carry out in the study.
(6 marks)

(iii) Explain the importance of socially responsible investing in today's stock market.
(6 marks)

(b) The extracted news is sourced from BloombergView.



When Interest Rates Go Negative

By Jana Randow and Simon Kennedy | Updated Nov 23, 2015 8:21 AM EST

Imagine a bank that pays negative interest. Depositors are actually charged to keep their money in an account. Crazy as it sounds, several of Europe's central banks have cut key interest rates below zero and kept them there for more than a year. For some, it's a bid to reinvigorate an economy with other options exhausted. Others want to push foreigners to move their money somewhere else. Either way, it's an unorthodox choice that has distorted financial markets and triggered warnings that the strategy could backfire. If negative interest rates work, however, they may mark the start of a new era for the world's central banks.

European Central Bank (ECB) is the first major central bank to charge below zero interest rate in June 2014. Yet, banks have been reluctant to pass on negative rates to their customers with the fear of losing their customers. Comment on the negative interest rate charged by a number of European central banks.
(7 marks)

QUESTION 2 (25 marks)

The main investment concept in finance is efficient market hypothesis. Efficient market hypothesis (EMH) has been the subject of thorough academic research and intense debate. It is the fundamental concept explaining movements in asset price. Explain the three forms of EMH and its shortcomings in today's market.
(25 marks)

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QUESTION 3 (25 marks)

Based on Table 1 below, please answer the following questions.

Table 1 .Asset Pricing Models

Model	Description
CAPM	$E(R_i) = R_F + b_i[E(R_M) - R_F]$
Index model	$R_{it} - R_{Ft} = a_i + b_i(R_{Mt} - R_{Ft}) + e_{it}$
Three factor model	$R_{it} - R_{Ft} = a_i + b_i(R_{Mt} - R_{Ft}) + s_i SMB_t + h_i HML_t + e_{it}$
Five factor model	$R_{it} - R_{Ft} = a_i + b_i(R_{Mt} - R_{Ft}) + s_i SMB_t + h_i HML_t + r_i RMW_t + c_i CMA_t + e_{it}$

(Source: Harshita *et al.* (2015). Indian stock market and the asset pricing models, Procedia Economics and Finance 30, 294 – 304)

(i) Explain the importance of asset pricing. Why different asset pricing models are being developed by researchers over the time? (6 marks)

(ii) What is Capital Asset Pricing Model (CAPM)? Explain how this single factor model explains stock return. (8 marks)

(iii) Fama and French (1992) tested asset pricing model by incorporating two more variables, SMB and HML to form a three-factor model. Explain these two variables. (8 marks)

(iv) In the aspect of behavioral finance, what variable would you include in the asset pricing model to better explain stock returns? (3 marks)

QUESTION 4 (25 marks)

In the belief of efficient markets, a portfolio manager who employs active investment strategies cannot outperform the one who uses passive investment strategies, after considering transaction costs. A number of investment strategies had been explored by portfolio managers to exploit pricing anomalies. Explain the strategies below.

(i) Fusion investing (7 marks)

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(ii) Value investing (6 marks)

(iii) Growth investing (6 marks)

(iv) Buy and hold (6 marks)

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